Umzimkhulu Local Municipality
Financial statements
for the year ended 30 June 2016

Umzimkhulu Local Municipality
(Registration number KZN435)
Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Local Municipality
Members of the Council	
Mayor	Cllr M B Mpabanga
Deputy Mayor	Cllr S Nkala
Speaker	Cllr K E Thobela
Chief whip	Cllr X Tshazi
Members of the executive committee	Cllr M Swaartbooi
Members of the executive committee	Cllr S Ngcongo
Members of the executive committee	Cllr B Lukakayi
Members of the executive committee	Cllr M Dzanibe
Members of the executive committee	Cllr B Cira
Members of the executive committee	Cllr F Nene
Accounting Officer	Mr Z.S Sikhosana
Chief Finance Officer (CFO)	Mrs T.J Ngcemu
Grading of local authority	3
Attorneys	Matthew Francis
Bankers	First National Bank
Registered office	169 Main Street Umzimkhulu 3297
Business address	169 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone number	039 259 5000
Fax number	039 259 0427
Email address	info@umzimkhululm.gov.za

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Approval of Financial Statements

I am responsible for the preparation of these financial statements, which are set out on pages 4 to 67 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr Z S Sikhosana
Municipal Manager

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Cash and cash equivalents	2	111,745,164	94,283,017
Receivables from exchange transactions	3	709,901	29,122
Receivables from non-exchange transactions	4	419,450	354,600
Other receivables from exchange and non exchange transactions	5	4,072,360	2,729,722
VAT receivable	6	2,517,120	4,384,199
		119,463,995	**101,780,660**
Non-Current Assets			
Investment property	7	31,254,830	31,284,997
Property, plant and equipment	8	465,842,991	432,313,148
Intangible assets	9	643,079	320,632
Heritage assets	10	255,000	180,000
		497,995,900	**464,098,777**
Total Assets		**617,459,895**	**565,879,437**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	14,337,344	11,483,058
Unspent conditional grants and receipts	12	19,141,285	20,167,507
Other financial liabilities	13	-	10,000,000
		33,478,629	**41,650,565**
Non-Current Liabilities			
Employee benefit obligation	14	1,730,875	1,137,074
Provisions	15	2,424,318	2,238,107
		4,155,193	**3,375,181**
Total Liabilities		**37,633,822**	**45,025,746**
Net Assets		**579,826,073**	**520,853,691**
Reserves			
Housing operating account	16	18,189,784	22,569,566
Accumulated surplus	17	561,636,289	498,284,120
Total Net Assets		**579,826,073**	**520,853,686**

Umzimkhulu Local Municipality
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Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from exchange transactions			
Interest received (trading)		217,224	216,896
Interest received - investment	18	5,888,714	3,993,108
Rental of facilities and equipment	19	1,216,825	1,120,209
Service charges	20	829,509	765,216
Other Revenue	21	3,134,461	3,168,348
Total revenue from exchange transactions		**11,286,733**	**9,263,777**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	7,296,892	6,539,146
Transfer revenue			
Government grants & subsidies	23	233,536,545	194,111,730
Fines, Penalties and Forfeits		1,017,630	1,039,450
Learners and licences		664,206	644,748
Motor vehicle registration and licences		368,384	309,557
Total revenue from non-exchange transactions		**242,883,657**	**202,644,631**
Total revenue	24	**254,170,390**	**211,908,408**
Expenditure			
Employee related costs	25	(55,876,750)	(45,635,878)
Remuneration of councillors	26	(14,467,129)	(13,675,661)
Debt Impairment	27	(869,015)	(7,965,538)
Depreciation and amortisation	28	(42,021,061)	(35,014,224)
Impairment loss/ Reversal of impairments	29	-	(6,054,985)
Interest costs	30	(442,729)	(899,752)
Lease rentals on operating lease		(599,740)	(489,510)
Repairs and maintenance		(10,332,641)	(6,279,906)
General Expenses	31	(66,209,158)	(57,309,801)
Total expenditure		**(190,818,223)**	**(173,325,255)**
Operating surplus	32	**63,352,167**	**38,583,153**
Surplus for the year		**63,352,167**	**38,583,153**

Umzimkhulu Local Municipality
(Registration number KZN435)
Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Housing operating account	Accumulated surplus	Total net assets
Balance at 01 July 2014	**22,389,178**	**459,700,967**	**482,090,145**
Changes in net assets			
Surplus for the year	-	38,583,153	38,583,153
Interest on Housing Operating account	180,388	-	180,388
Total changes	180,388	38,583,153	38,763,541
Opening balance as previously reported	22,569,566	497,283,102	519,852,668
Adjustments			
Correction of prior period errors	-	1,001,020	1,001,020
Balance at 01 July 2015 as restated*	**22,569,566**	**498,284,122**	**520,853,688**
Changes in net assets			
Interest on Housing Operating account	(4,379,782)	-	(4,379,782)
Net income (losses) recognised directly in net assets	(4,379,782)	-	(4,379,782)
Surplus for the year	-	63,352,167	63,352,167
Total recognised income and expenses for the year	(4,379,782)	63,352,167	58,972,385
Total changes	(4,379,782)	63,352,167	58,972,385
Balance at 30 June 2016	**18,189,784**	**561,636,289**	**579,826,073**
Note(s)	16		

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Receipts from ratepayers and other services		16,547,697	14,688,048
Government Grants and subsidies		233,536,545	194,111,730
Interest income		5,888,714	3,993,108
		255,972,956	212,792,886
Payments			
Employee costs		(70,343,879)	(59,311,539)
Suppliers and other payments		(65,565,893)	(53,824,568)
Interest charges		(442,729)	-
		(136,352,501)	(113,136,107)
Net cash flows from operating activities	33	**119,620,455**	**99,656,779**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(91,656,165)	(66,890,129)
Purchase of other intangible assets	9	(502,143)	(311,979)
Net cash flows from investing activities		**(92,158,308)**	**(67,202,108)**
Cash flows from financing activities			
Repayment of other financial liabilities		(10,000,000)	10,000,000
Net cash flows from financing activities		**(10,000,000)**	**10,000,000**
Net increase/(decrease) in cash and cash equivalents		**17,462,147**	**42,454,671**
Cash and cash equivalents at the beginning of the year		94,283,017	51,828,346
Cash and cash equivalents at the end of the year	2	**111,745,164**	**94,283,017**

Umzimkhulu Local Municipality

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Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2016											
Financial Performance											
Property rates	7,922,020	2,457,818	10,379,838	-		10,379,838	7,296,892		(3,082,946)	70 %	92 %
Service charges	786,048	43,642	829,690	-		829,690	829,509		(181)	100 %	106 %
Investment revenue	3,887,186	1,644,916	5,532,102	-		5,532,102	5,888,714		356,612	106 %	151 %
Transfers recognised - operational	178,247,000	(20,000,000)	158,247,000	-		158,247,000	158,247,000		-	100 %	89 %
Other own revenue	5,109,105	1,247,567	6,356,672	-		6,356,672	6,618,730		262,058	104 %	130 %
Total revenue (excluding capital transfers and contributions)	**195,951,359**	**(14,606,057)**	**181,345,302**	**-**		**181,345,302**	**178,880,845**		**(2,464,457)**	**99 %**	**91 %**
Employee costs	(50,010,502)	(6,481,208)	(56,491,710)	-	-	(56,491,710)	(55,876,750)	-	614,960	99 %	112 %
Remuneration of councillors	(14,967,745)	169,343	(14,798,402)	-	-	(14,798,402)	(14,467,129)	-	331,273	98 %	97 %
Debt impairment	(62,952)	(2,437,048)	(2,500,000)			(2,500,000)	(869,015)	-	1,630,985	35 %	1,380 %
Depreciation and asset impairment	(36,965,196)	(2,871,479)	(39,836,675)			(39,836,675)	(42,021,061)	-	(2,184,386)	105 %	114 %
Finance charges	(900,000)	285,000	(615,000)	-	-	(615,000)	(600,085)	-	14,915	98 %	67 %
Other expenditure	(102,454,048)	26,595,794	(75,858,254)	-	-	(75,858,254)	(77,141,539)	-	(1,283,285)	102 %	75 %
Total expenditure	**(205,360,443)**	**15,260,402**	**(190,100,041)**	**-**	**-**	**(190,100,041)**	**(190,975,579)**	**-**	**(875,538)**	**100 %**	**93 %**
Surplus/(Deficit)	**(9,409,084)**	**654,345**	**(8,754,739)**	**-**		**(8,754,739)**	**(12,094,734)**		**(3,339,995)**	**138 %**	**129 %**

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	40,299,000	27,999,660	68,298,660	-		68,298,660	66,298,660		(2,000,000)	97 %	165 %
Surplus (Deficit) after capital transfers and contributions	**30,889,916**	**28,654,005**	**59,543,921**	**-**		**59,543,921**	**54,203,926**		**(5,339,995)**	**91 %**	**175 %**
Surplus/(Deficit) for the year	**30,889,916**	**28,654,005**	**59,543,921**	**-**		**59,543,921**	**54,203,926**		**(5,339,995)**	**91 %**	**175 %**
Capital expenditure and funds sources											
Total capital expenditure	58,149,000	45,685,024	103,834,024	-		103,834,024	99,642,641		(4,191,383)	96 %	171 %
Sources of capital funds											
Transfers recognised - capital	40,299,000	27,999,660	68,298,660	-		68,298,660	66,298,660		(2,000,000)	97 %	165 %
Internally generated funds	17,850,000	17,685,144	35,535,144	-		35,535,144	34,047,637		(1,487,507)	96 %	191 %
Total sources of capital funds	**58,149,000**	**45,684,804**	**103,833,804**	**-**		**103,833,804**	**100,346,297**		**(3,487,507)**	**97 %**	**173 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	75,009,696	29,352,876	104,362,572	-		104,362,572	119,620,455		15,257,883	115 %	159 %
Net cash from (used) investing	(58,748,880)	(45,085,144)	(103,834,024)	-		(103,834,024)	(92,158,308)		11,675,716	89 %	157 %
Net cash from (used) financing	-	-	-	-		-	(10,000,000)		(10,000,000)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**16,260,816**	**(15,732,268)**	**528,548**	**-**		**528,548**	**17,462,147**		**16,933,599**	**3,304 %**	**107 %**
Cash and cash equivalents at the beginning of the year	53,768,064	40,514,953	94,283,017	-		94,283,017	94,283,017		-	100 %	175 %
Cash and cash equivalents at year end	**70,028,880**	**24,782,685**	**94,811,565**	**-**		**94,811,565**	**111,745,164**		**(16,933,599)**	**118 %**	**160 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Variance explanations:

The budget is approved on an accrual basis nature of classification. The approved budget covers the period of 01 July 2015 to 30 June 2016.

Material variances on final budget compared to actual

Revenue

Property Rates - The decrease in the property rates is caused by the rebates that the municipality has provided in this financial year, reducing the property rates by R3 million to R7.2 million. refer to note 23 of the annual financial statements.

Services Charges - Due to change in the contract with St Magaret Hospital, that are not using their own vehicle to deliver the refuse.

Investment revenue – More interest was earned than participated during the year due improvement on our cash flow and investment with Ned bank.

Other Revenue – Other revenue inclusive of Rental facilities, dumping fees, Hall fees, skip waste, all these facilities has increased comparing to previous financial years, and Also Learners and licences and Motor vehicle registration and licences and has increased meaning the municipal income portion as per Department Of Transport regulations has increased.

Expenditure

Employee costs - variance was coursed by the resignation of two contract employees in the middle of the financial year and not replace until June 2016. We do realised savings on this item.

Remuneration of councillors - the final budget for 2015-2016 increment was 6% then later the CPI for councillors was 5.5% approved.

Debt impairment – The budget was based on the debt impairment for previous financial year, the actual for 2016 is what the debt impairment increase by.

Depreciation and asset impairment – This is a result of access roads and community assets capitalised during the financial year which was not budgeted for in 2015-2016 depreciation.

Finance charges – Increase in finance charges is due to interest paid for Loan with DBSA.

Other expenditure – The over spending is a result of expensing electrification.

Capital Expenditure

Transfers recognised capital – The difference of R2 million is for small Town SMME which was not recognised due to tenders that were evaluated for compliance and none was found responsive.

Total capital expenditure – The unspent on capital expenditure is due to the following:

IT Software and Hardware bidders were not compliant with Supply Chain processes.

There was a termination of contract on Neighbourhood during the financial year.

Other expenditure the municipality realised savings than anticipated on the budget.

Internally generated funds:

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

The unspent on Neighbourhood is due to the contractor that was appointed who did not deliver then the municipality terminated the contract.

Summary of Significant Accounting Policies

1. Accounting policies

1.1 Basis of presentation

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).Additional text

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1.1 Changes in accounting policies, esimates and errors

Changes in accounting policies that are affected by management ae applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is imparactical to determine the period-specific effects or cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practible.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occured in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

1.2 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 Going concern assumption

These financial statements have been prepared based on the expectation.that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.5 Critical judgements, estimation and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Summary of Significant Accounting Policies

. **Critical judgements, estimation and assumptions (continued)**

1.5.1 Revenue recognition

Accounting policy 1.18 on Revenue from exchange Transactions and accounting policy 1.19 on Revenue from non-exchange Transactions describes the conditions under which revenue will be recorded by he management on the municipality.

In making thier judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on Financial Assets Classification and on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

1.5.3 Impairment of financial assets

Accounting Policy 1.24 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investement property and intangible assets over the estimatd useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of asets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management"s judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5.5 Budget information

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the annual financial statements.

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in an annexure separate from these annual financial statements.

Summary of Significant Accounting Policies

. **Critical judgements, estimation and assumptions (continued)**

1.5.6 Impairment of property, plant and equipment and intangible assets

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets- Amortisation and impairment. Subsequent measurement describes the conditions under which non- financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

1.5.7 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.5.8 Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

1.6 Standards, amendments to standards and interpretations issued

1.6.1 Standards and interpretations approved and effective:

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

1.6.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing

. Standards, amendments to standards and interpretations issued (continued)
performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.
The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

1.7 Investment property

1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Summary of Significant Accounting Policies

. **Investment property (continued)**

1.7.2 Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30-50 years

1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.8 Property, plant and equipment

1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Summary of Significant Accounting Policies

. **Property, plant and equipment (continued)**

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

1.8.2 Subsequent measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.8.3 Depreciation and impairment

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives to their estimated residual values.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	
• Land	Indefinite
Buildings	
• Buildings	30 - 50 years
Infrastructure	
• Dams	30 years
• Pedestrian malls	30 years
• Roads	10 - 30 years
Community	
• Buildings	30 - 50 years
• Recreational Facilities	20 - 30 years
• Security	5 - 10 years
Other property, plant and equipment	
• Other Vehicles	5 - 15 years
• Office equipment	3 - 12 years
• Furniture and fittings	7 - 12 years
• Specialist Vehicles	10 - 20 years
• Landfill site	15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.8.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Summary of Significant Accounting Policies

. Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.8.5 Work in progress

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.8.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

1.8.7 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.9 Intangible assets

1.9.1 Initial recognition

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.9.2 Subsequent measurement

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

1.9.3 Amortisation and impairment

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

. **Intangible assets (continued)**

1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

. **Heritage assets (continued)**

1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.11.6 Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Summary of Significant Accounting Policies

. **Financial instruments (continued)**

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

Summary of Significant Accounting Policies

. **Financial instruments (continued)**
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.12.1 Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.12.2 Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Summary of Significant Accounting Policies

. **Financial instruments (continued)**

1.12.6 Derecognition

1.12.6.1 Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

1.12.6.2 Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Summary of Significant Accounting Policies

1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.18.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

1.18.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.18.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

. Revenue from exchange transactions (continued)

1.18.4 Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.19.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.19.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Summary of Significant Accounting Policies

. **Revenue from non-exchange transactions (continued)**

1.19.3 Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.19.4 Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.19.5 Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

1.19.6 Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.19.7 Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.19.8 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19.9 Services in-kind

Services in-kind are not recognised.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment income comprise of interest received on investments.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Employee benefits

1.23.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compansated absences is recognised s an expense as the employee render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected costs of surplus sharing and bonus payments is recognised as expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.23.2 Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical and pension funds on their behalf and thus there are no post- employment benefits.

1.23.3 Long service awards

Provision for long services awards represents the present value of the estimated future cash outflow to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis.Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit

Short-term employee benefits

Summary of Significant Accounting Policies

. **Employee benefits (continued)**

1.23.4 Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.24 Impairment of assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

1.24.1 Impairment of cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 26: Impairment of cash-generating assets - Cash-generating assets are those assets held by an group with the primary objective of generating a commercial return. An municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. The municipality estimated and found no material impact in the applicability of the standard.

1.24.2 Impairment of non-cash generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Summary of Significant Accounting Policies

. **Impairment of assets (continued)**

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 21: Impairment of Non-Cash generating assets – No material impact is expected. The requirements of GRAP are similar to the requirement of IAS 36 and IPSAS 2 Impairment of non-cash generating assets.

1.25 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991

1.27 Housing operating account

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Summary of Significant Accounting Policies

. **Segmental information (continued)**

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.32 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.33 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Summary of Significant Accounting Policies

1.1 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Notes to the Financial Statements

Figures in Rand	2016	2015

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	96	166
Bank balances	419,953	1,011,718
Short-term deposits	111,325,115	93,271,133
	111,745,164	**94,283,017**

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

Primary bank account details

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FNB - Cheque Account- 52555730913	446,386	1,004,120	642,640	419,953	1,011,718	263,573
Cydesdale Housing- Project- FNB- 62331947418	9,492,856	10,434,622	10,317,496	9,492,856	10,434,622	10,341,092
Ext 5 & 6 Housing Project- FNB- 62023990907	490,122	1,280,346	1,259,970	490,122	1,280,346	1,262,928
Ibisi Housing Project- FNB- 62331935950	135,230	822,617	806,709	135,230	822,617	808,832
MIG Grant- FNB- 621239382055	7,859,921	300,245	2,000	7,859,921	300,245	2,000
MSIG- FNB- 62127055045	46,187	21,886	82,327	46,187	21,886	7,964
Neighbourhood Grant- FNB- 62174358525	6,381,217	10,861,977	700,434	6,381,215	10,861,977	700,433
Electricity- FNB- 62174363508	3,654,474	1,010	2,806,440	365,475	1,010	1,992,842
Riverside Housing Project- Phase1- FNB- 62023990593	506,422	693,675	679,528	506,422	693,675	681,357
Riverside Housing Project- Phase2- FNB- 62331950495	2,992,436	3,600,998	3,547,686	2,992,436	3,600,998	3,555,204
Ritvlei/ City Surv Account- FNB- 62123938104	873,354	841,162	788,654	873,354	841,162	791,024
Rural Housing Project- FNB- 62331949422	3,813,178	5,009,961	4,938,512	3,813,178	5,009,961	4,948,740
32 Days Acc- FNB- 62132172355	34,804,024	38,644,599	18,627,660	34,804,011	38,644,599	16,510,562
Ned Bank- 7165022759	26,896,082	-	-	26,896,082	-	-
Sport Facility Grant- FNB- 62125140129	1,133	1,122	1,111	1,132	1,122	1,111
Human Settlement Housing Operating Account- 62396633838	16,528,807	10,564,484	8,951,943	16,528,807	10,564,484	8,961,107
Small Town- FNB- 62396640396	126,235	4,950,921	3,095,830	126,235	4,950,921	885,708
Electrification Pleadge- FNB- 62521187684	10,487	5,241,522	-	12,452	5,241,522	-
Total	**115,058,551**	**94,275,267**	**57,248,940**	**111,745,068**	**94,282,865**	**51,714,477**

Notes to the Financial Statements

Figures in Rand	2016	2015

3. Receivables from exchange transactions

	2016	2015
Other receivables	37,598	180,920
Provisions for other receivables	(37,598)	(180,920)
Prepayments	674,600	-
Operating lease receivables	35,301	29,122
	709,901	**29,122**

Reconciliation of provision for impairment of trade and other receivables

	2016	2015
Opening balance	(180,920)	(322,251)
Provision for impairment	-	(44,404)
Amounts written off as uncollectible	141,592	185,735
Payment received	1,730	-
	(37,598)	**(180,920)**

4. Receivables from non-exchange transactions

	2016	2015
Fines	860,946	444,646
Provision for Traffic Fines	(441,496)	(90,046)
Grant expenditure	-	6,319,286
provision for grant expenditure	-	(6,319,286)
	419,450	**354,600**

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2016	2015
Opening balance	(6,409,332)	-
Provision for traffic fines	(351,450)	(90,046)
Provision for grant expenditure	-	(6,319,286)
Amounts written off as uncollectible	6,319,286	-
	(441,496)	**(6,409,332)**

5. Receivables from exchange and non-exchange transactions

	2016	2015
Gross balances		
Rates and refuse	6,936,076	5,582,214
Less: Allowance for impairment		
Rates and refuse	(2,863,716)	(2,852,492)
Net balance		
Rates and refuse	4,072,360	2,729,722

	2016	2015
Rates and refuse		
Current (0 -30 days)	706,121	357,440
31 - 60 days	143,778	220,093
61 - 90 days	138,450	178,194
91 - 120 days	136,049	119,112
121 - 365 days	5,697,192	4,512,892
> 365 days	114,486	194,483
	6,936,076	**5,582,214**

Notes to the Financial Statements

Figures in Rand	2016	2015

5. Receivables from exchange and non-exchange transactions (continued)

Summary of debtors by customer classification

Consumers residential		
Current (0 -30 days)	327,662	254,778
31 - 60 days	112,874	90,601
61 - 90 days	109,526	52,063
91 - 120 days	109,281	52,587
121 - 365 days	2,515,376	2,056,575
	3,174,719	**2,506,604**

Industrial/ commercial		
Current (0 -30 days)	374,774	317,870
31 - 60 days	30,280	83,637
61 - 90 days	27,515	63,198
91 - 120 days	25,474	52,647
121 - 365 days	940,572	1,073,051
	1,398,615	**1,590,403**

National and provincial government		
Current (0 -30 days)	3,684	4,884
31 - 60 days	624	3,956
61 - 90 days	1,409	3,850
91 - 120 days	1,295	3,837
121 - 365 days	2,241,244	1,274,197
	2,248,256	**1,290,724**

Total		
Current (0 -30 days)	706,121	577,532
31 - 60 days	143,778	178,194
61 - 90 days	138,450	119,111
91 - 120 days	136,049	109,071
121 - 365 days	5,697,192	4,403,823
> 365 days	114,486	194,483
	6,936,076	5,582,214
Less: Allowance for impairment	(2,863,716)	(2,852,492)
	4,072,360	**2,729,722**

Allowance for impairment		
Current (0 -30 days)	(131,589)	(84,434)
31 - 60 days	(55,799)	(38,675)
61 - 90 days	(55,519)	(36,478)
91 - 120 days	(110,315)	(79,019)
121 - 365 days	(2,510,494)	(2,613,886)
	(2,863,716)	**(2,852,492)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(2,852,492)	(2,538,361)
Contributions to allowance	(517,565)	(1,511,803)
Debt impairment written off against allowance	506,341	1,197,672
	(2,863,716)	**(2,852,492)**

Notes to the Financial Statements

Figures in Rand	2016	2015

5. Receivables from exchange and non-exchange transactions (continued)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 996,062 (2015: R874 737 -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2016	2015
1 month past due	695,712	577,532
2 months past due	155,741	178,194
3 months past due	144,609	119,111
	996,062	**874,837**

6. VAT receivable

	2016	2015
VAT (SARS)	2,517,120	4,384,199

7. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	31,827,992	(573,162)	31,254,830	31,827,992	(542,995)	31,284,997

Reconciliation of investment property - June 2016

	Opening balance	**Depreciation**	**Total**
Investment property	31,284,997	(30,167)	31,254,830

Reconciliation of investment property - June 2015

	Opening balance	**Depreciation**	**Total**
Investment property	31,315,163	(30,166)	31,284,997

7.1 Rental Income from Investment Property

	2016	2015
Direct income from rentals	1,216,825	1,120,209

Figures in Rand	2016	2015

7. Investment property (continued)

7.2 Details of property

Land- Shopping Complex
Erven 229, 735 and 736
Duration : 50 years
Termination date : 18 June 2046
The Rhino centre has 10% of the net rental and 2% is payable to the municipality, whis is calculated on the turnover.

	2016	2015
- Purchase price: 1 July 1996	5,300,000	5,300,000

Building- Hotel and House
Erven 231 and 232
Duration : 50 years
Termination date : 30 November 2061
Rental income is R148 620 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.

	2016	2015
- Purchase price: 1 December 2011	904,992	904,992
- Accumulated depreciation	(573,162)	(542,995)
	331,830	**361,997**

Municipal Vacant Properties
Erven 152

	2016	2015
- Purchase price: 1 July 1997	13,162,000	13,162,000
- Additions since purchase or valuation	2,461,000	2,461,000
	15,623,000	**15,623,000**

Land - Umzimkhulu Mall
Erven 155
Duration: 50 years
Termination: 31 December 2062
Rental income is R285 952 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum.

	2016	2015
- Purchase price: 1January 2013	10,000,000	10,000,000

	2016	2015
- Purchase price: 1 December 2008	5,300,000	5,300,000
- Additions since purchase or valuation	331,830	361,997
- Capitalised expenditure	15,623,000	15,623,000
	10,000,000	10,000,000
Total Investment property	**31,254,830**	**31,284,997**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	10,104,000	-	10,104,000	10,104,000	-	10,104,000
Buildings	28,594,475	(8,910,076)	19,684,399	28,594,475	(7,818,100)	20,776,375
Infrastructure Assets	361,163,374	(152,802,233)	208,361,141	335,272,859	(119,657,686)	215,615,173
Community Assets	102,337,092	(11,427,365)	90,909,727	89,165,698	(8,166,079)	80,999,619
Other Fixed Assets	40,043,483	(11,807,016)	28,236,467	26,038,695	(8,137,189)	17,901,506
Capital work in progress	108,547,257	-	108,547,257	86,916,475	-	86,916,475
Total	**650,789,681**	**(184,946,690)**	**465,842,991**	**576,092,202**	**(143,779,054)**	**432,313,148**

Reconciliation of property, plant and equipment - June 2016

	Opening balance	**Additions**	**Loss on scrapping of assets**	**Capitalised during the year**	**Transfer out**	**Depreciation**	**Total**
Land	10,104,000	-	-	-	-	-	10,104,000
Buildings	20,776,375	-	-	-	-	(1,091,976)	19,684,399
Infrastructure Assets	215,615,173	-	-	25,890,516	-	(33,144,548)	208,361,141
Community Assets	80,999,619	-	-	13,171,394	-	(3,261,286)	90,909,727
Other fixed assets	17,901,506	14,922,271	(254,098)	-	-	(4,333,212)	28,236,467
Capital work in progress	86,916,475	76,733,894	-	(39,061,910)	(16,041,202)	-	108,547,257
	432,313,148	**91,656,165**	**(254,098)**	**-**	**(16,041,202)**	**(41,831,022)**	**465,842,991**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2015

	Opening balance	Additions	Loss on scraping of assets	Transfers in	Capitalised during the year	Depreciation	Impairment loss	Total
Land	10,104,000	-	-	-	-	-	-	10,104,000
Buildings	22,695,716	-	-	-	-	(1,091,970)	(827,371)	20,776,375
Infrastructure Assets	172,399,757	-	-	-	75,538,904	(28,857,931)	(3,465,557)	215,615,173
Community Assets	37,086,075	-	-	1,074,091	46,877,240	(2,507,156)	(1,530,631)	80,999,619
Other fixed assets	13,485,813	6,838,261	(11,266)	-	-	(2,411,302)	-	17,901,506
Capital work in progress	149,046,948	73,854,254	-	(13,568,583)	(122,416,144)	-	-	86,916,475
	404,818,309	**80,692,515**	**(11,266)**	**(12,494,492)**	**-**	**(34,868,359)**	**(5,823,559)**	**432,313,148**

Depreciation rates

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,173,461	(530,382)	643,079	841,318	(520,686)	320,632

Notes to the Financial Statements

Figures in Rand	2016	2015

9. Intangible assets (continued)

Reconciliation of intangible assets - June 2016

	Opening balance	Additions	scrapping of assets	Amortisation	Total
Computer software	320,632	502,143	(19,821)	(159,875)	643,079

Reconciliation of intangible assets - June 2015

	Opening balance	Additions	Scrapping of assets	Amortisation	Total
Computer software	167,218	311,979	(42,866)	(115,699)	320,632

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Memorial Hall	255,000	-	255,000	180,000	-	180,000

Reconciliation of heritage assets- June 2016

	Opening balance	Impairment losses reversed	Total
Memorial Hall	180,000	75,000	255,000

Reconciliation of heritage assets- June 2015

	Opening balance	Impairment losses recognised	Total
Memorial Hall	432,000	(252,000)	180,000

11. Payables from exchange transactions

	2016	2015
Income received in advanced - contract in process	114,485	194,483
Accrued leave pay	2,954,301	2,414,484
Accrued expense	3,307,159	688,528
Deposits received	34,791	23,016
Interest payable	-	150,976
Retention	7,940,341	8,011,571
Operating lease creditor	(13,733)	-
	14,337,344	**11,483,058**

Figures in Rand	2016	2015

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Human settlement housing operating fund	16,528,807	10,564,484
Neighbourhood Grant	612,478	6,662,183
Small town development Grant	2,000,000	2,940,840
	19,141,285	**20,167,507**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

13. Other financial liabilities

At amortised cost		
DBSA loan (Electrification)	-	10,000,000
Terms and conditions		

Repayments will be within 7 days from the payment dates of INEP grants to Municipality as they are published in the Government Gazzette in terms of the applicable Division of Revenue Act. The capital, together with the interest will be repaid in full on or before31 January 2016. Interest rate is fixed at 9.00%.

Current liabilities		
At amortised cost	-	10,000,000

14. Employee benefit obligations

Long service awards

Opening balance	1,137,074	925,761
Expense (service and interest cost)	256,135	221,004
Actuarial (gains) losses	352,055	17,795
Actual benefit payments	(14,389)	(27,485)
	1,730,875	**1,137,075**

Employees who achieve 10 years service will be granted 10 days paid leave. Employees who achieve 15 years service will be granted 20 days paid leave. Employees who achieve 20 years service will be granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years service will be granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2015. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 8.50% (2014 : 8.60%) was used on internal rate of return.

Figures in Rand	2016	2015

14. Employee benefit obligations (continued)

Key assumptions used

The financial and demographic assumptions used in the valuation are as follows:

Discount rates used	8.50 %	8.60 %
CPI	6.22 %	6.90 %
Expected increase in salaries	7.22 %	7.90 %
Net discount rate	1.19 %	0.65 %

The mortality rate of an individual is assumed to be 85-90.

The normal retirement age is assumed to be 63 years.

15. Provisions

Reconciliation of provisions - 30 June 2016

	Opening Balance	Utilised during the year	Total
Landfill site provision	2,238,107	186,211	2,424,318

Reconciliation of provisions - 30 June 2015

	Opening Balance	Utilised during the year	Total
Landfill site provision	1,564,405	673,702	2,238,107

Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2017 and has been discounted to reflect its present value. The discounting rate used is 8.32%.

16. Housing operating account

Opening balance	22,569,566	22,389,178
Interest received	(4,379,782)	180,388
	18,189,784	**22,569,566**

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies

Operating grants		
Equitable share	151,222,000	116,142,000
FMG Grant	1,800,000	1,800,000
MSIG Grant	930,000	934,000
MIG Admin	1,679,120	1,641,320
Arts and Culture- Library	744,000	681,000
Expanded public works grant	1,872,000	1,913,000
IDP Grant	-	5,000
	158,247,120	**123,116,320**

Capital grants		
Small town development grant	2,940,840	3,677,919
Electrification grant	20,000,000	21,504,000
MIG Grant	46,298,880	36,475,674
Neighbourhood Grant	6,049,705	9,337,817
	75,289,425	**70,995,410**
	233,536,545	**194,111,730**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Human Settlement Housing Operating Fund

Balance unspent at beginning of year	10,564,484	8,961,107
Current-year receipts	5,964,323	1,603,377
	16,528,807	**10,564,484**

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Finance Management Grant

Current-year receipts	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,800,000)	(1,800,000)
	-	-

The purpose of this grant is to promote sound financial management.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None..

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Expanded Public Works Grant

Current-year receipts	1,872,000	1,913,000
Conditions met - transferred to revenue	(1,872,000)	(1,913,000)
	-	-

The purpose of this grant is to reduce peverty and. unemployemnt.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Systems Improvement Grant

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	-

The purpose

.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Arts and Culture Grant

Current-year receipts	744,000	681,000
Conditions met - transferred to revenue	(744,000)	(681,000)
	-	-

The purpose of this grant is to fund the salaries for the Librarians.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

IDP Grant

Balance unspent at beginning of year	-	5,000
Conditions met - transferred to revenue	-	(5,000)
	-	-

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

The purpose of this grant is for IDP compilation and its processes.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Infrastructure Grant

Current-year receipts	47,978,000	41,033,000
Conditions met - transferred to revenue	(47,978,000)	(36,475,674)
Conditions met-off-set on the grant debt	-	(2,916,006)
Conditions met- Transfered to admin costs	-	(1,641,320)
	-	-

The purpose for this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Electrification Grant- DoE

Current-year receipts	20,000,000	15,004,000
Conditions met - transferred to revenue	(20,000,000)	(15,004,000)
	-	-

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Electrification Grant- Cogta

Current-year receipts	-	3,500,000
Conditions met - transferred to revenue	-	(3,500,000)
	-	-

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Electrification Grant- HGDM

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Current-year receipts	-	3,000,000
Conditions met - transferred to revenue	-	(3,000,000)
	-	-

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Neighbourhood Grant

Balance unspent at beginning of year	6,662,183	-
Current-year receipts	-	16,000,000
Conditions met - transferred to revenue	(6,049,705)	(9,337,817)
	612,478	**6,662,183**

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant si for property development in townships, upgrading community facilities and attracting private sector runding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The amount for this grant was not spent until the approval of the roll over, and the contractor did not perform well which lead to the termination of its contract, and the new contractor was appointed, but the time was against them.

Small Town Development Grant

Balance unspent at beginning of year	2,940,840	-
Current-year receipts	2,000,000	8,000,000
Conditions met - transferred to revenue	(2,940,840)	(3,677,920)
Other	-	(1,381,240)
	2,000,000	**2,940,840**

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The grant was only received in March, and the tender had to be re-advertised because we did not get the intended responses in the 1st advertisement.

Notes to the Financial Statements

Figures in Rand	2016	2015

24. Revenue

Service charges	829,509	765,216
Rental of facilities and equipment	1,216,825	1,120,209
Interest received (trading)	217,224	216,896
Other income	3,134,461	3,168,348
Interest received - investment	5,888,714	3,993,108
Property rates	7,296,892	6,539,146
Government grants & subsidies	233,536,545	194,111,730
Fines, Penalties and Forfeits	1,017,630	1,039,450
Learners and licences	664,206	644,748
Motor vehicle registration and licences	368,384	309,557
	254,170,390	**211,908,408**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	829,509	765,216
Rental of facilities and equipment	1,216,825	1,120,209
Interest received (trading)	217,224	216,896
Other Revenue	3,134,461	3,168,348
Interest received - investment	5,888,714	3,993,108
	11,286,733	**9,263,777**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	7,296,892	6,539,146
Transfer revenue		
Government grants & subsidies	233,536,545	194,111,730
Fines, Penalties and Forfeits	1,017,630	1,039,450
Learners and licences	664,206	644,748
Motor vehicle registration and licences	368,384	309,557
	242,883,657	**202,644,631**

Notes to the Financial Statements

Figures in Rand	2016	2015

25. Employee related costs

Basic	37,148,419	31,951,974
Bonus	2,761,050	2,479,875
Medical aid - company contributions	2,402,953	1,974,644
UIF	277,444	246,326
WCA	584,099	779,391
SDL	611,291	508,832
Leave pay provision charge	781,614	512,353
Leave encashment	1,202,078	-
Bargaining council	13,043	11,194
Pension fund- municipal contributions	3,983,518	3,502,289
Travel, motor car, accommodation, subsistence and other allowances	2,819,128	1,733,276
Overtime payments	1,236,082	674,824
Acting allowances	257,231	144,746
Housing benefits and allowances	1,300,060	1,098,358
Actuarial Losses	352,055	17,796
Cellphone expenses	86,685	-
Added Responsibilities	60,000	-
	55,876,750	**45,635,878**

Remuneration of Municipal Manager

Annual Remuneration	641,969	602,788
Bonus Contract	91,819	105,374
Backpay	16,578	15,567
Travel Allowance	267,487	251,162
Contribution to UIF, Medical and Pension Funds	160,492	150,697
Cellphone Allowance	23,988	18,000
Subsitance Allowance	10,594	5,133
Leave Encashment	41,156	-
	1,254,083	**1,148,721**

Remuneration of Chief Finance Officer

Annual Remuneration	539,354	506,435
Bonus Contract	77,142	41,800
Backpay	13,929	1,078
Travel Allowance	134,839	126,609
Contributions to UIF, Medical and Pension Funds	112,366	105,509
Cellphone Allowance	23,988	12,000
Subsistance Allowance	10,410	5,431
Housing Allowance	112,366	105,509
Leave Encashment	34,578	-
	1,058,972	**904,371**

Remuneration of Infrastructure and Engineering Manager

Annual Remuneration	503,741	472,996
Bonus Contract	72,049	82,685
Backpay	13,009	12,215
Travel Allowance	209,892	197,082
Contributions to UIF, Medical and Pension Funds	83,957	78,833
Cellphone Allowance	23,988	12,000
Subsistance Allowance	22,713	7,682
Housing Allowance	41,978	39,416
Leave Encashment	32,295	-
	1,003,622	**902,909**

Notes to the Financial Statements

Figures in Rand	2016	2015

25. Employee related costs (continued)

Remuneration of Corporate Services Manager

Annual Remuneration	494,135	463,976
Bonus Contract	70,675	81,108
Backpay	12,761	-
Travel Allowance	205,889	193,323
Contributions to UIF, Medical and Pension Funds	123,534	115,994
Cellphone Allowance	23,988	12,000
Subsistence Allowance	21,868	7,216
Leave Encashment	31,679	-
	984,529	**873,617**

Remuneration of Community and Social Services Manager

Annual Remuneration	494,134	471,486
Bonus Contract	70,675	81,108
Backpay	12,761	-
Travel Allowance	205,889	193,323
Contributions to UIF, Medical and Pension Funds	123,532	115,994
Cellphone Allowance	23,988	12,000
Subsistence Allowance	-	3,798
Leave Encashment	31,679	-
	962,658	**877,709**

Remuneration of Strategic Planning and Development Manager

Annual Remuneration	494,134	463,976
Bonus Contract	70,675	81,108
Backpay	12,761	-
Travel Allowance	205,889	193,323
Contributions to UIF, Medical and Pension Funds	123,532	115,994
Cellphone Allowance	23,988	12,000
Subsistence Allowance	10,651	3,808
Leave Encashment	31,679	-
	973,309	**870,209**

26. Remuneration of councillors

Mayor	738,254	687,994
Deputy mayor	590,603	550,395
Executive members	2,328,474	2,167,180
Speaker	590,603	550,395
Chief Whip	553,691	515,996
Councillors' basic allowance	6,268,086	6,111,389
Councillors' travel allowance	961,748	894,391
Councillors' pension fund contribution	1,022,992	952,668
Councillors' medical aid contribution	157,135	146,199
Councillors' cellphone allowances	1,255,543	1,099,054
	14,467,129	**13,675,661**

Notes to the Financial Statements

Figures in Rand	2016	2015

26. Remuneration of councillors (continued)

Ward committee expenses

Councillors' basic allowance includes ward committee expenses of R1 122 000 at 30 June 2016 (2015 : R1 152 500).

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker has a full time secretary.

Number of employees:

The number of employees was 191 at 30 June 2016 (2015 : 180).

27. Debt impairment

Other receivables	-	44,404
Traffic fines	351,450	90,046
Grants	-	6,319,286
Rates and refuse	517,565	1,511,802
	869,015	**7,965,538**

Contributions to debt impairment relates to increase in bad debt provision made to traffic fines, and rates and refuse.

28. Depreciation and amortisation

Property, plant and equipment	41,831,020	34,868,359
Investment property	30,166	30,166
Intangible assets	159,875	115,699
	42,021,061	**35,014,224**

29. Impairment of assets

Impairments		
assets	-	6,054,985

30. Interest charges

Trade and other payables	383	4,863
Landfill site	186,211	673,702
Other interest paid	256,135	221,187
	442,729	**899,752**

Notes to the Financial Statements

Figures in Rand	2016	2015

31. General expenses

Audit and Accounting fees	1,494,763	1,704,609
Administration fees	856,440	435,433
Bank charges	600,085	199,048
Cleaning	670,333	853,499
Consulting and professional fees	8,787,324	6,454,657
Electricity	5,101,069	3,247,879
Donations	16,041,202	14,164,789
Entertainment	3,615,921	2,156,504
Equipment hire	1,064,024	1,850,246
Insurance	589,313	468,205
IT expenses	244,615	1,015,113
Promotions and sponsorships	380,145	618,936
Motor vehicle expenses	1,783,461	1,927,244
Implementation of property rates	285,968	226,862
Fuel and oil	1,147,019	990,589
Printing and stationery	1,655,102	1,243,859
Security (Guarding of municipal property)	4,852,699	4,734,492
Subscriptions and membership fees	507,834	517,576
Telephone and fax	2,366,263	1,895,311
Transport and freight	968,591	756,430
Training	1,628,455	1,117,081
Subsistance and travelling	4,878,043	4,511,129
Water	52,283	115,554
Uniforms	186,391	591,958
Other operating and administrative expenses	2,393,274	1,485,249
Office Equipment expenses	188,909	140,745
Poverty Alleviation	2,992,609	3,091,759
Legal fees	579,910	783,779
Loss on scrapping of assets	273,919	11,266
Pound expenses	23,194	-
	66,209,158	**57,309,801**

32. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	599,740	489,510

Impairment on heritage assets	-	6,054,985
Amortisation on intangible assets	159,875	115,699
Depreciation on property, plant and equipment	41,831,020	34,868,359
Depreciation on investment property	30,166	30,166
Employee costs	70,343,879	59,311,539

Figures in Rand	2016	2015

33. Cash generated from operations

Surplus	63,352,167	38,583,153
Adjustments for:		
Depreciation and amortisation	42,021,061	35,014,224
Impairment deficit	-	6,054,985
Debt impairment	869,015	7,965,538
Movements in retirement benefit assets and liabilities	593,801	211,313
Movements in provisions	186,211	673,702
Other non-cash items	198,919	212,227
Prior period errors	-	(233,798)
Other non-cash items	(4,379,782)	-
Other non-cash items	16,041,202	-
Changes in working capital:		
Receivables from exchange transactions	(680,779)	(9,628)
Consumer debtors	(2,211,653)	(7,055,707)
Other receivables from non-exchange transactions	(64,850)	10,352,528
Payables from exchange transactions	2,854,286	(649,396)
VAT	1,867,079	(2,663,762)
Unspent conditional grants and receipts	(1,026,222)	11,201,400
	119,620,455	**99,656,779**

34. Contingent liabilities

Legal claims

Various claims submitted to the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful, is disclosed.

Legal disputes relate to:

- Failure to comply with the acknowledgement of debt	7,000	4,500
- Invasion of Municipal Land and Illegal structure	20,000	8,000
- Municipal investigations and employees dispute	8,000	13,000
- Default judgements	16,000	6,000
- Breach of contract	14,000	16,500
- Oustanding settlements	15,000	7,000
	80,000	**55,000**

Notes to the Financial Statements

Figures in Rand	2016	2015

35. Commitments

35.1 Authorised capital expenditure

Authorised and Contracted		
• Buildings	14,499,526	16,016,956
• Community	8,057,850	3,780,198
• Infrastructure	16,801,200	9,241,851
	39,358,576	**29,039,005**
Authorised but not yet contracted		
• Infrastructure	12,948,519	-
Total capital commitments		
Already contracted for but not provided for	39,358,576	29,039,005
Not yet contracted for and authorised by accounting officer	12,948,519	-
	52,307,095	**29,039,005**

35.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due		
- within one year	303,720	321,718
- in second to fifth year inclusive	576,289	-
	880,009	**321,718**

8 Photocopy Machines(Konica Minolta) : The Municipality had a lease agreement of the machines that started in 1/12/2012, and ended in 31 December 2015.
8 Photocopy Machines (Nashua): The municipality then entered into new lease agreement of 8 machines that started on 1st of June 2016, and the monthly rental is payable at the end of each month over the period of 36 months.

35.3 Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1,448,109	1,304,904
- in second to fifth year inclusive	2,890,611	2,649,520
- later than five years	20,319,025	16,948,261
	24,657,745	**20,902,685**

The municipality leased vacant land to a property developers whom has developed a shopping complex, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

Notes to the Financial Statements

Figures in Rand	2016	2015

36. Risk management

36.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

Financial Assets		
Petty cash	96	166
Bank balances	419,953	1,011,718
Short-term deposits	111,325,115	93,271,133
Receivables from exchange transactions	709,901	29,122
Receivables from non exchange transactions	419,450	354,600
Other receivables from exchange and non-exchange transactions	4,072,360	2,729,722
	116,946,875	**97,396,461**

Financial Liabilities		
Payables from exchange transactions	14,372,559	11,249,259
Unspent conditional grants	19,141,285	20,167,507
Other financial liabilities	-	10,000,000
	33,513,844	**41,416,766**

36.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Payables from exchange transactions	14,372,559	11,249,259
Other financial liabilities	-	10,000,000
	14,372,559	**21,249,259**

Notes to the Financial Statements

Figures in Rand	2016	2015

36. Risk management (continued)

36.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

Balances exposed to the interest rate risk:		
Bank balances	419,953	1,011,718
Short-term deposits	111,325,115	93,271,133
Other financial liabilities	-	(10,000,000)
	111,745,068	**84,282,851**

36.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Receivables from exchange transactions	709,901	29,122
Receivables from non exchange transactions	419,450	354,600
Other receivables from exchange and non exchange transactions	4,072,360	2,729,722
	5,201,711	3,113,444

37. Fruitless and wasteful expenditure

Opening balance	-	3,045
Condoned and written off by Council	-	(3,045)
	-	-

38. Irregular expenditure

Opening balance	2,253,500	1,146,200
add: Irregular expenditure- current year	466,610	1,107,300
Less: Amounts condoned	(2,720,110)	-
	-	**2,253,500**

The irregular expenditure relates to the renewal of contract in the prior financial years that was presented and approved by the council, but was found to be non-complient with the Supply Chain Regulations in the current financial

39. Unauthorised expenditure

There was no unauthorised expenditure in the financial year.

Figures in Rand	2016	2015

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	500,000	500,000
Amount paid - current year	(500,000)	(500,000)
	-	-

Audit fees

Current year subscription / fee	1,494,763	1,704,609
Amount paid - current year	(1,494,763)	(1,704,609)
	-	-

PAYE and UIF

Current year subscription / fee	9,789,858	8,252,355
Amount paid - current year	(9,789,858)	(8,252,355)
	-	-

VAT

VAT receivable	2,517,120	4,384,199

All VAT returns have been submitted by the due date throughout the year.

41. Related parties

Related party transactions

Section 57 employees		
Remuneration	6,237,173	5,577,536
Councillors		
Remuneration	14,467,129	13,675,661
Councilors lease rentals		
MB Mpabanga	4,620	4,270
Employees lease rentals		
N. Tyekela	13,308	-
K. Dweba	13,308	25,200

42. Deviation from supply chain management regulations

No deviations occured during the this financial year.

43. Events after the reporting date

The Heritage asset (Memorial hall) is currently undergoing major renovations that could have a significant impact on its value in future.

No other material category of non-adjusting events took place after the reporting date.

44. Prior period errors

Community assets were understated by a consultant amount of R196 331 that should have been raised as an accrual and an amount of R1 377 040 of Magqagqeni community hall that was not recorded in the asset register.

Infrastructure assets were understated by a consultant amount of R37 472 that should have been raised as an accrual. Creditors accrual were understated by the amount of the R233 803

The Accumulated depreciation for Community assets and Infrastructure assets were understated by R332 324, and R832 respectively.

Intengible assets that have exprired and were replaced in the previous year were still in the asset register, thus overstating the book value of intangible assets by R42 865

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Community Assets	-	1,573,371
Infrastructure assets	-	37,472
Intangible assets	-	(510,932)
Creditors Accruals	-	(233,803)
Accumulated Depreciation Community Assets	-	(332,324)
Accumulated Depreciation Infrastructure Assets	-	(832)
Accumulated Amortisation- Intangible Assets	-	468,067
Opening Accumulated Surplus	-	(1,003,684)
Statement of Financial Performance		
Depreciation expense	-	30,207